

THE FEDERAL SAVINGS BANK



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Should We Worry About Slower Home Construction?

To put it mildly, the housing market has faced significant challenges in the wake of the financial crisis. One of the key challenges has been slower growth in new construction, which has arguably contributed to concerns about a plateau in home sales at various points in the past few years.

2013 saw [Existing Home Sales](#)--which does not include new homes--peak **before breaking** above the 2009/10 peaks. Sure, we could point out the fact those earlier peaks were only made possible by the homebuyer tax credits, but it would have been an important symbolic victory nonetheless.

Meanwhile, construction metrics continued a slow, steady climb to post-crisis highs. That sounds like a good thing, but the fact is that the **pace of the improvement** was much more gradual compared to Existing Home Sales (see this in the chart below where Housing Starts and Building Permits barely budged relative to Existing Home Sales in 2010-2012).

Just this week, we saw Existing Home Sales begin to edge above a year-long plateau to hit the best levels in **more than 9 years**. Yet [Housing Starts](#) and [Building Permits](#) (which measure residential construction activity) are stuck under 2015's highs.

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			

30 Yr. Fixed	7.15%	-0.05	0.00
15 Yr. Fixed	6.63%	-0.03	0.00
30 Yr. FHA	6.61%	-0.03	0.00
30 Yr. Jumbo	7.39%	-0.02	0.00
5/1 ARM	7.34%	+0.01	0.00

Freddie Mac

30 Yr. Fixed	7.09%	-0.35	0.00
15 Yr. Fixed	6.38%	-0.38	0.00

Rates as of: 5/9

Market Data

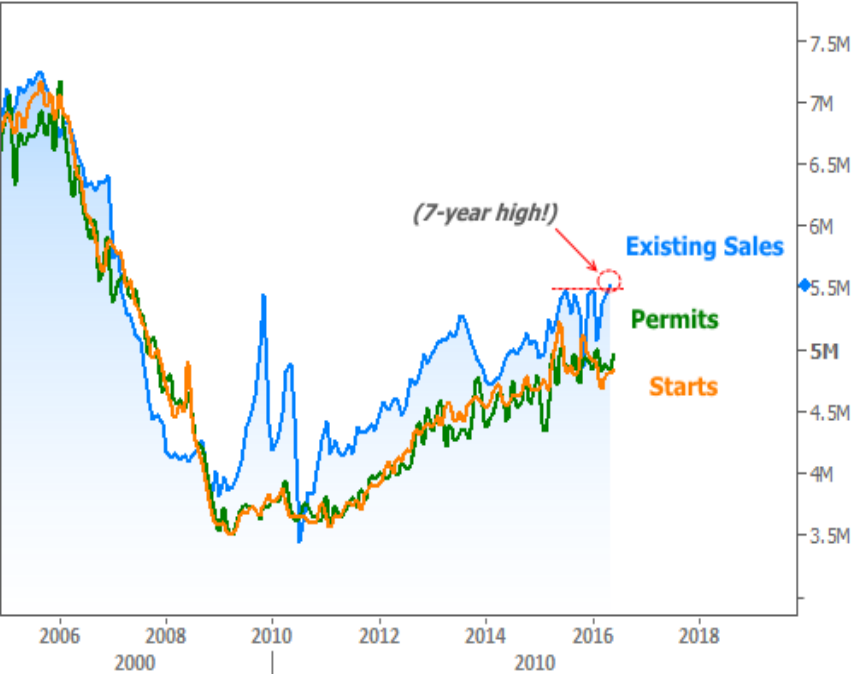
	Price / Yield	Change
MBS UMBS 6.0	100.08	-0.20
MBS GNMA 6.0	100.88	-0.27
10 YR Treasury	4.4968	+0.0407
30 YR Treasury	4.6415	+0.0330

Pricing as of: 5/10 10:38AM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Apr 24	196.7	-2.67%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

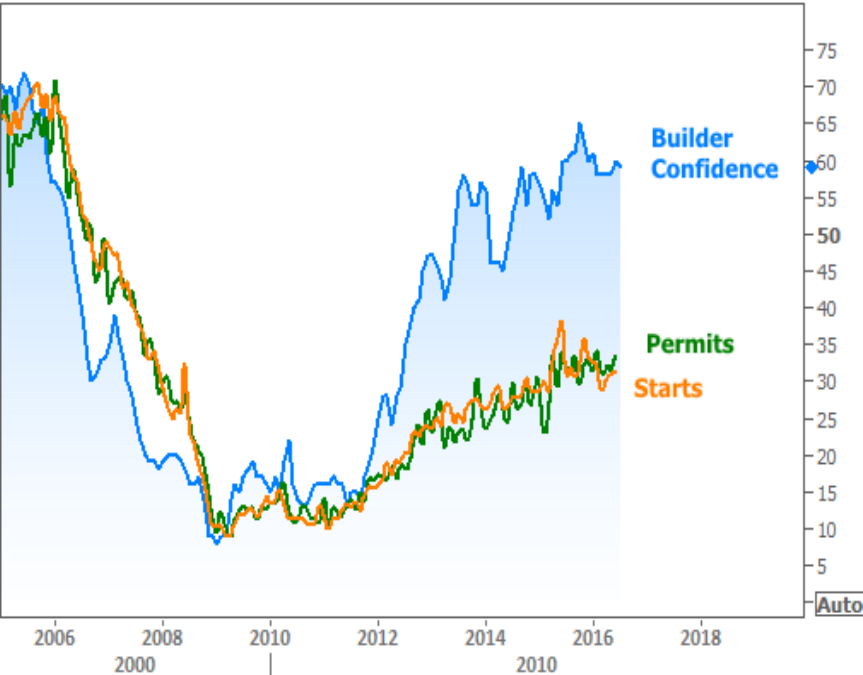
Existing Home Sales, Housing Starts, Building Permits



How concerned should we be about this **lack of progress** in construction activity?

The answer will likely vary depending on your individual outlook on the economy and the housing market. There are several forces at work here. One of the most frequently-cited is that it's simply in builders' best interest to build **fewer, bigger houses** for economic reasons. The other major consideration is the relative boom in multifamily construction. Both of these would help explain builders' ability to remain much more upbeat than residential construction numbers would suggest.

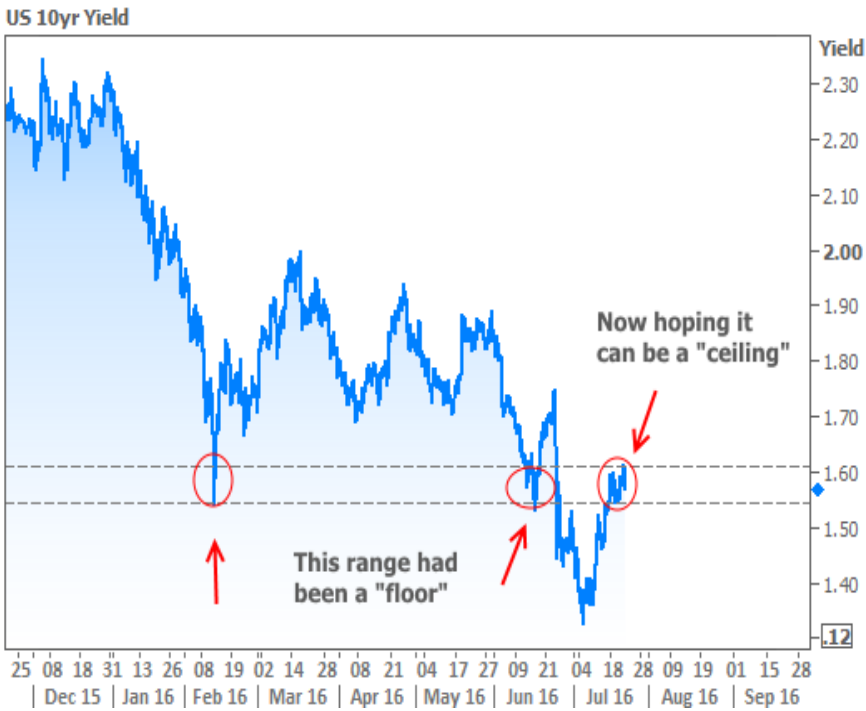
Builder Confidence, Housing Starts, Building Permits



While an ebb in the multifamily boom **could** theoretically divert more construction resources toward the single family sector, **demand has to be there** and new entrants to the housing market have to be able to qualify to buy homes. These are issues that the housing industry can't even come close to solving on its own. They will continue to prevent the type of expansion in home sales that we've seen in past cycles.

The nice thing about this sort of plateau is that it doesn't convey exuberance or doom. In fact, the underlying factors do more to **restrain** exuberance than anything. The implication is that slow, steady growth can continue, to whatever extent other variables stay steady (i.e. rates, jobs, economy).

Specifically, low rates have **helped affordability**, and recent rates have been some of the lowest in history. Looking at trends in 10yr Treasury yields (which tend to set the general tone for mortgage rate movement), rates have been holding under a ceiling that had previously acted as a floor. If this ceiling is broken, however, the affordability component of the home sales equation could start to suffer.



If the battle with this ceiling isn't resolved before then, next week's events will probably help speed the process along. The headliners include announcements from the Fed and the Bank of Japan. The Fed **is not** expected to hike rates at this meeting, but they could drop hints, given ebbing panic surrounding the UK's vote to exit the EU, as well as the stronger jobs numbers earlier this month.

The Bank of Japan was rumored to be considering a **big shift** in its monetary policy involving "helicopter money" (distributing cash directly to the public). Even though officials have dispelled those rumors, markets are nonetheless anxious to see if any additional stimulus will be announced.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Jul 18				
10:00AM	Jul NAHB housing market indx	59	60	60

Event Importance:

- No Stars = Insignificant
- ☆ Low
- ★ Moderate

Date	Event	Actual	Forecast	Prior
Tuesday, Jul 19				
8:30AM	Jun Housing starts number mm (ml)	1.189	1.170	1.164
8:30AM	Jun Building permits: number (ml)	1.153	1.150	1.136
Wednesday, Jul 20				
7:00AM	w/e Mortgage Market Index	614.3		622.4
Thursday, Jul 21				
8:30AM	Jul Philly Fed Business Index	-2.9	5.0	4.7
8:30AM	w/e Initial Jobless Claims (k)	253	260	254
10:00AM	Jun Existing home sales (ml)	5.57	5.48	5.53
Monday, Jul 25				
1:00PM	2-Yr Note Auction (bl)	26		
Tuesday, Jul 26				
9:00AM	May CaseShiller 20 yy (%)	+5.2	5.5	5.4
10:00AM	Jun New home sales-units mm (ml)	0.592	0.560	0.551
10:00AM	Jul Consumer confidence	97.3	95.9	98.0
1:00PM	5-Yr Note Auction (bl)	34		
Wednesday, Jul 27				
8:30AM	Jun Durable goods (%)	-4.0	-1.1	-2.3
10:00AM	Jun Pending homes index	111.0		110.8
2:00PM	N/A FOMC rate decision (%)	0.25-0.50	0.375	0.375
Thursday, Jul 28				
1:00PM	7-Yr Note Auction (bl)	28		
Friday, Jul 29				
8:30AM	Q2 GDP Advance (%)	+1.2	2.6	1.1
8:30AM	Q2 Employment costs (%)	+0.6	0.6	0.6
9:45AM	Jul Chicago PMI	55.8	54.0	56.8
10:00AM	Jul U Mich Sentiment Final (ip)	90.0	90.5	89.5
Wednesday, Sep 28				
11:30AM	2-Yr Note Auction (bl)	13		

☆☆ Important

☆☆☆ Very Important

Responsive service, experienced expertise

I've dedicated my 22 year mortgage career to client education, superior service, and honest answers. The lending landscape has changed dramatically the past few years, and continues to do so. My job is to ensure client partners' loans close quickly, without surprises, and I take that responsibility very seriously. Referrals are a responsibility I appreciate; they're a measure of trust, and that trust must be earned every day, on every referral.

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